CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
Job Tax Credit for Veterans

March 13, 2013

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 533 (Bernardy)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
General Fund	($30,000)	($28,500)	($27,000)	($25,700)

Effective for taxable years beginning after December 31, 2012.

EXPLANATION OF THE BILL

The bill establishes a nonrefundable credit against the individual income or corporate franchise taxes for employers. To be considered a qualifying employer, the business must hire a disabled veteran, an unemployed veteran, or an under-employed veteran. The credit is allowed for veterans who are hired during the tax year and equals 10% of the wages paid to the qualified employee/veteran up to a maximum credit of: 1) $3,000 for a disabled veteran, 2) $1,500 for an unemployed veteran, and 3) $1,500 for an underemployed veteran.

A disabled veteran is a veteran who has had a service-connected disability rating. An unemployed veteran is a veteran who received state or federal unemployment compensation during the two-year period prior to the date of hire and was unemployed on the date of hire. An underemployed veteran is a veteran who is working part time but seeking full-time work or working full time but receiving wages below the state poverty level.

A qualified employee/veteran must meet the statutory definition of employee. Also, the employee must be a resident of the state on the date of hire, be paid wages, and have wages that are attributable to Minnesota. A qualified employee does not include any employee who is related to the employer, owns 50% of the outstanding stock in the hiring corporation, owns more than 50% of the capital and profits interests of the hiring corporation, or has any relationship as a grantor, beneficiary, or fiduciary where the employer is an estate or a trust.

A qualified employer may not claim a job tax credit for hiring a disabled, unemployed, or underemployed veteran if they currently employ or have previously employed the veteran.

REVENUE ANALYSIS DETAIL

- The estimate is based on information on veterans from the Bureau of Labor Statistics (BLS) and the Minnesota Department of Employment and Economic Development (DEED).
- There are approximately 381,000 veterans in Minnesota. About 202,000 of these veterans are in the workforce.
- Of the total 202,000 workers, approximately 177,000 are employed and 25,000 are unemployed.
- Of the 177,000 employed veterans, approximately 25,000 have a disability.
- Of the 25,000 unemployed veterans, approximately 2,500 have a disability.
- For veterans who are working but not disabled, it is estimated that 4,200 are working part time and seeking full-time employment and 15,200 are working full time but receiving wages below the poverty level as determined by DEED.
- It is estimated that 40% of disabled veterans are public sector workers and would not be eligible for credits. Similarly, it is estimated that 29% of unemployed veterans and 34% of part-time veteran workers are in the public sector.
- Based on information from BLS, it is expected that 55% of unemployed disabled veterans will be re-employed annually and 60% of other unemployed veterans will be re-employed annually.
- It is assumed that the rate at which disabled veterans switch jobs to another employer is similar to the rate at which the general population changes employers. Based on information from DEED, it is expected that approximately 21% of currently employed disabled veterans will be re-employed annually with another employer.
- Based on information from BLS, 93% of all veterans are employed full time which is similar to the distribution of the male full-time employment rate since veterans are approximately 92% male.
- It is assumed that the average credit will be 90% of the maximum credit allowed for disabled full-time veterans, 80% for underemployed veterans, and 60% for disabled part-time veterans.
- It is expected that the total credit would decline somewhat over the forecast period. Although veterans would be entering the workforce each year, a large portion of veterans hired in the previous year(s) would remain in the same job. An annual reduction of 5% was applied to the total credit.
- It is assumed that 5% of all claims will not be used because the credit is nonrefundable.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx